

ASIA AND OCEANIA

Trade Policy

China's Growth a U.S. Market Fundamental

China is one of the world's largest economies, and a vast and growing market for U.S. agricultural products. Rising incomes of China's 1.3 billion consumers have fueled strong demand for U.S. farm products. U.S. agricultural exports to China have surged from about \$1.8 billion in fiscal 2002 to \$6.1 billion in fiscal 2004.

In 2004, China's purchases of soybeans, cotton, hides and skins, tobacco, planting seeds, sugars, sweeteners and beverage bases, red meats, snack foods, processed fruits and vegetables, dairy products and fresh fruits, all set records. (See chart spread on trade with China on page 32 of this issue.)

Today, China is our No. 1 market for soybeans, cotton, and hides and skins and our fourth largest market for wheat. Agriculture is one of the few sectors where the United States has a trade surplus with China.

In recent years, China had a trade surplus in agricultural products. Its primary exports were vegetables, fruits, poultry, processed foods, corn and rice, and its primary imports were soybeans, cotton, wheat, rubber, vegetable oils, hides and offal.

However, in 2003 China was a net agricultural importer, as its purchases rose more than 60 percent to \$17.4 billion, due largely to sharp increases in both the quantity and price of soybean and cotton imports. That year China's agricultural exports were \$15.4 billion, leaving the country with an agricultural trade deficit

of \$2 billion. While the final trade figures for 2004 are not yet available, all indications are that China's agricultural trade deficit widened further due to the sharp increase in imports, particularly of soybeans, cotton and wheat.

The outlook for U.S. agricultural exports to China remains bright, with a forecast of \$4.6 billion for fiscal 2005. This is down by \$1.5 billion from 2004's record due to lower volume and prices for soybeans, combined with lower volume and much lower cotton prices. But China is expected to remain the fifth largest market for U.S. agricultural products this year.

RISING INCOMES OF CHINA'S 1.3 BILLION CONSUMERS FUEL STRONG DEMAND FOR U.S. FARM GOODS.

What Drives This Dramatic Growth

Few countries have been able to match China's sustained economic growth, which has averaged more than 8 percent annually since 1978. Its sheer size and rapid expansion make China's economy a major engine of growth in the global economy.

China has the potential for continued growth in the foreseeable future. The factors that have propelled economic expansion over the past 30 years are still in place. As long as China maintains an open policy toward foreign investment and invests heavily in infrastructure and other capital, it will continue to grow rapidly

and provide new opportunities for U.S. agricultural products.

Since the 1980s, China has embraced foreign trade as a key to economic growth. Tariffs have been slashed, import and export licensing requirements have been dropped for many products, and most government trading monopolies have been eliminated.

China's entry into the WTO (World Trade Organization) was preceded by the series of tariff cuts and other liberalizations typically required of acceding nations during the period leading to its formal accession in 2001. It will take China several more years to fully implement its WTO commitments and realize their impact on trade.

Membership in the global, rules-based trading system subjects China to the same rigorous standards of fairness, transparency and predictability that apply to the United States and other WTO members.

Challenges Ahead

To meet WTO requirements, China has repealed or revised more than 1,100 laws and regulations, reduced tariffs, removed market access barriers and established transparency procedures.

But where implementation has slowed, the United States has acted promptly to achieve results for U.S. farmers—using informal consultations where possible and formal mechanisms where necessary.

Despite the many challenges facing China as it moves to a more market-driven, transparent economy, it remains a growing market of opportunity for U.S. exporters. ■